January 3, 1969

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NEWFOUNDLAND LIGHT & POWER CO. LIMITED

Capitalization as at December 31, 1968

Long Term Debt..........................	$33,696,060
Preferred Stock.........................	$ 5,714,300
Common Stock............................	2,472,384 shares

Current: $8\frac{1}{4}$	Dividend: 50¢
1968/9 Range: $9\frac{5}{8}$ - $7\frac{1}{2}$	Yield: 6.0%

The shares are trading at not much more than 4 times anticipated 1969 cash flow and less than 9 times this year's estimated net earnings per share and at about book value to yield 6%. In future earnings should increase modestly but persistently. At current levels the stock offers sound value for an investor seeking income combined with sufficient growth to compensate for the erosion of the purchasing value of the dollar.

Earnings in 1968 will be down from 1967's 88¢ per share but in 1969, earnings could approach $1 per share. Cash flow will be close to $2 per share. Over the last two years there have been rate hearings which first lowered and then raised the tariffs.

Three separately operated companies were merged into Newfoundland Light & Power Co. Limited in September 1966. The new company now serves areas containing about three-quarters of the population of Newfoundland and operates under the jurisdiction of the Board of Commissioners of Public Utilities of the Province of Newfoundland.

Not only was there a major shift in the corporate structure of the electricity utilities in Newfoundland but also in mid-1967 the Newfoundland and Labrador Power Commission's hydro development at Bay d'Espoir started to deliver power to the company. These changes led to three major hearings before the Board resulting in the following orders:

1) March 1967:- The Board established a rate base for the new combined Company and reconfirmed the rates of depreciation previously provided by the predecessor Newfoundland Light.

11) June 1967:- The Board found that a just and reasonable rate of return lay between $7\frac{1}{4}$% and $7\frac{3}{4}$% and granted interim approval to a revised rate schedule which reduced overall revenues.

111) November 1968:- The Board brought in province-wide uniform rates, ruled that a just and reasonable return lies between $7\frac{1}{4}$% and 8%, and increased the company's tariffs slightly, effective December 1, 1968.

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The effect on the company of these orders was to lower the return in the latter half of 1967 and through much of 1968 and to increase the anticipated return in 1969.

Newfoundland Light has a remarkable record of growth. In the five years to 1967 kilowatt hour sales rose at an annual compound rate in excess of 12 per cent while dollar revenue increased by 10 per cent per annum. A major stimulus to the current growth is electric heat which is competitive with fuel oil. An estimated 6% of 1967 load was used for electric heating.

	Electric heat			
	1964	1966	1967	1968(Sept)
Housing units	less than 100	392	1,302	2,168
Commercial		120	206	300

The company will have to increase its distribution assets in line with rising demand for electricity. There will probably be no major generating projects undertaken by the company because in the future the Province intends to supply all new power requirements from its own developments.

The company's average rate base in 1967 was ruled to be $59.2 million (primarily net fixed assets less contributions in aid of construction and deferred income taxes plus an allowance for working capital). Depreciation, which is deducted from the rate base, is currently running at close to $2½ million annually. Additions to rate base will more than offset depreciation. About $5 million was spent in 1968 on distribution and substations which accounts for the bulk of normal expenditure. Considering the $5 million as a base figure and adjusting for other expenditures and rising costs the rate base should increase at about 5% annually.

If interest rates remain as high as they are now the average cost of capital will rise steadily as older lower coupon issues are redeemed and new high coupon issues are sold. If the company can maintain a stable rate of return near the ceiling allowed by the Board, the rate of growth of earnings available for dividends will be restrained by higher interest charges but should work out to about 4% annually assuming the rate base will rise at about 5% annually.

There have been two major changes in accounting procedures. The company does not make provision for deferred taxes arising from claiming capital cost allowances in excess of depreciation recorded in the books. Deferred taxes, however, will continue to be provided with respect to other items claimed for income tax purposes which are carried as deferred tax (for example frequency conversion costs of $360,000 were capitalized during 1967 and these costs will be amortized over 10 years).

Secondly the company produces some of its own power and purchases the remainder. Its own electric production is from hydro facilities and volume varies with rainfall. When rainfall is deficient the total cost of purchased power

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increases. Accordingly the Board of Commissioners of Public Utilities ordered the company to set up a reserve designed to equalize such variations. When water flow is less than average as in 1967 transfers are made from the reserve to income and vice-versa in high water years as in 1966 (adjusted).

Earnings reported for 1967 were equivalent to 88¢ per share. No provision was made for deferred taxes arising out of claiming capital cost allowances in excess of depreciation. Restated 1966 earnings by the company were equivalent to 83¢. Both earnings were adjusted to average fluctuating hydro-power costs.

	1966 reported	1966 restated (000's)	1967
Operating revenues	$13,765	$13,765	$15,220
Operating expenses	5,850	5,850	6,888
Depreciation	2,198	2,198	2,356
Operating income	5,717	5,717	5,976
Interest & Amortization	1,814	1,814	2,046
	3,903	3,903	3,930
Income tax paid	1,466	1,466	1,313
deferred	352	24	212
Net income before adjustment	2,085	2,413	2,405
Hydro Power equalization	-	(63)	67
Reported net income	2,085	2,350	2,472
Preferred dividends	310	310	307
Available for common	$ 1,775	$ 2,040	$ 2,165
Per share	72¢	83¢	88¢

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